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January 4, 1977

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of
the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

This report is submitted in accordance with Section 41365 of the Health and Safety Code of the State of California that directs the Joint Legislative Audit Committee to report on the activities of the California Housing Finance Agency (CHFA) within 90 days following receipt of the Agency's annual report. The first annual report of the CHFA, for fiscal year 1975-76, was issued on September 28, 1976.

The California Housing Finance Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act of 1975 to meet the housing needs of persons and families of low or moderate income. This objective will be accomplished by selling bonds and using the proceeds to finance housing needs at lower-than-market interest rates.

Agency Operations

The CHFA was in the developmental stage during most of the fiscal year. Its activities concentrated on obtaining court validation

of its right to sell bonds, establishing administrative policies, and developing loan programs. No bonds were sold nor loans made during the fiscal year.

The total debt capacity of the CHFA is \$950 million; \$450 million is in revenue bonds and \$500 million is in general obligation bonds. However, when Proposition One failed in the November 1976 general election, CHFA was denied authorization to issue general obligation bonds.

During its first year of operation, the Agency received 189 loan applications for almost \$480 million. By the end of June 1976, it had made commitments on six projects totaling approximately \$14 million and had begun approving 26 projects totaling an estimated \$50 million.

Events Since June 30, 1976

On October 27, 1976 the CHFA sold \$100 million in tax-exempt revenue bonds at a net interest cost of 5.98 percent. The Agency plans to use the proceeds of this sale to purchase homes from 45 participating mortgage lenders and to make 7 percent loans to an estimated 3,000 low-to moderate income families. This rate is at least one percentage point below current FHA and VA loan rates.

Because Proposition One failed in the November 1976 general election, the Agency may not issue general obligation bonds. The effect is (1) to reduce the bond issuance authority of the Agency from \$950 million to \$450 million, and (2) to deny participants the lowest possible interest rate. Revenue bond interest is generally one-quarter to one percent higher than general obligation bond interest.

Funds

The California Housing Finance Fund received an advance of \$10,750,000 from the State General Fund in September 1975. Of this amount, \$10 million is to be held in the Supplementary Bond Security Account. The \$10 million is to be used as security for issuance of revenue bonds, and it is to be repaid with interest from the first proceeds of general obligation bonds. The remaining \$750,000 is to be held in the Operating Account to pay the initial operating expenses of the Agency; this amount is due for repayment on January 1, 1986, without interest.

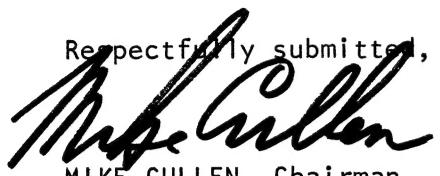
The Housing Rehabilitation Insurance Fund received a State General Fund advance of \$5 million in September 1975. This advance is to provide reserves and to pay expenses of the insurance program. This advance is also to be repaid by January 1, 1986, without interest.

At June 30, 1976 neither the \$10 million advance in the Supplementary Bond Security Account nor the \$5 million advance in the Housing Rehabilitation Insurance Fund had been used. However, part of the \$750,000 advance in the Operating Account of the California Housing Finance Fund had been used to pay operating expenses. At June 30, 1976, this account had a deficit balance of \$336,738.

The financial statements of these funds were examined by an independent certified public accounting firm. The accounting firm's

certificate stated:

In our opinion, the aforementioned financial statements present fairly the financial position of the various funds of the California Housing Finance Agency at June 30, 1976 and its revenues, expenses, and changes in fund balances (deficit) and sources and applications of cash for the period September 26, 1975 (inception) through June 30, 1976 in conformity with generally accepted accounting principles.

Respectfully submitted,

MIKE CULLEN, Chairman
Joint Legislative Audit Committee

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